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INFORMAL REPORT BY THE UNCTAD SECRETARIAT ON THE AD HOC MEETING OF THE SECRETARY-GENERAL OF UNCTAD ON GSP, GSTP AND NEW INITIATIVES FOR LDCs

Held at the Palais des Nations, Geneva,
from 16 to 17 July 1998

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INTRODUCTION

1. The Ad Hoc Meeting on GSP, GSTP and New Initiatives for LDCs was convened by the Secretary-General of UNCTAD in response to a recommendation made by the Trade and Development Board at its sixteenth executive session. The meeting took place on 16 and 17 July 1998 at the Palais des Nations, Geneva.

2. UNCTAD had invited a number of experts from developed and developing countries, the private sector and academia (see annex). However, as participation in the meeting was open-ended, there were also many participants from Permanent Missions in Geneva and some international organizations.

3. The meeting was structured into four sessions: (i) recent new developments in GSP schemes; (ii) follow-up to the announcements of new LDC preferences during the High-level Meeting on Integrated Initiatives for Least-Developed Countries' Trade Development: review of proposals and state of implementation; (iii) trade and development implications of recent trends in GSP schemes and new initiatives for LDCs; and (iv) ways and means of enhancing the utilization of preferences, in particular by LDCs, through technical cooperation. However, the discussions, which were lively throughout, did not always follow this structure.

4. Participants in the meeting agreed that, given its "seminar type" nature, there would be no formal report or conclusions. Instead, the UNCTAD secretariat was invited to prepare an informal report on the meeting under its own responsibility and to present its own conclusions. The report should provide a comprehensive and detailed record of all views expressed in the discussions.

I. OPENING STATEMENTS

A. Mr. Carlos Fortin, Deputy Secretary-General of UNCTAD

5. In his opening address, the Deputy Secretary-General of UNCTAD noted that trade and investment liberalization had made remarkable progress in the world economic setting of the 1990s, but many products of export interest to developing countries continued to face peak tariffs and tariff escalation which hampered export expansion in areas where competitive advantages existed. It appeared that many of these market barriers would not be reduced swiftly, but remain in place for some time to come. If their liberalization proved to be a protracted process, the GSP and other unilateral trade preferences would continue to be important.

6. Moreover, he stated that businesses had changed the manner in which their international transactions were organized. Corporate strategies were increasingly geared towards regions or the world as a whole, not only in supplying and servicing markets, but also with regard to the organization of production. As a result, production networks on regional or global scales had emerged. This could offer new opportunities for integrating developing countries further into the world economy. Trade preferences could play an important supporting role.

7. He also observed that economic integration arrangements aimed at liberalizing economic relations at regional levels had been proliferating in all parts of the world, involving in some cases both developed and developing country partners. New regional trading arrangements had been established and existing ones had been reactivated, strengthened or expanded. Reciprocal preferences resulting from an expanding, complex web of regional arrangements were increasingly to be found in juxtaposition with unilateral trade preferences. There might be a need to redefine their respective roles.

8. Furthermore, he pointed out that there was unanimous agreement that the trade and development problems of LDCs required the special attention of the international community. The danger that these countries were facing marginalization in the world economy was real. Moreover, LDCs which found themselves outside integration groupings might fall victim to trade and

investment diversion and be cut off from cooperation in research, technological development and training within regional integration groupings. On the other hand, joining such groupings would entail the acceptance of full reciprocity in economic relations within the economic integration arrangement. LDCs and other smaller countries obliged to open their markets within relatively short transition periods were unlikely to withstand unscathed the onslaught of full competition by economically more advanced members. Hence, these countries were facing a predicament. Unilateral trade preferences granted by integration groupings to LDCs might offer a solution.

B. Mr. Mussie Delelegn Arega, Chairman

9. The Chairman observed that recent developments in the GSP and other autonomously set trade preferences raised a number of important trade and development issues. The core issue which lay at the heart of the deliberations of the meeting was the role which the GSP and other unilateral trade preferences played in integrating developing countries, and in particular the weaker ones among them, into international trade and production. The post-Uruguay Round trading environment provided a new setting for trade preferences, and the question arose whether the new environment had implications for the use and philosophy of trade preferences. UNCTAD IX had confirmed that there was potential for maintaining in the post-Uruguay Round environment the role which the GSP had played as a trade policy instrument aimed at fostering the industrialization of developing countries and their integration into the world trading system. Ways and means should be explored for strengthening this potential.

10. He noted that in addressing the topic of session 1 recent developments in GSP schemes would need to be examined, but also other important developments involving autonomous preferential measures which went beyond the institutional framework of the GSP. He observed that developing countries themselves were increasingly taking the initiative in according unilateral preferential market access to LDCs. At the High-level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development, several developing countries had announced that they were ready to introduce a GSP for LDCs or to further extend special concessions in favour of LDCs within the framework of the Global System of Trade Preferences (GSTP). Session 2 presented an opportunity to obtain more detailed information on the various initiatives taken by developing countries in favour of LDCs.

11. With regard to session 3, he observed that experts from beneficiary countries were called upon to present the experience of these countries regarding the impact of unilateral trade preferences on export performance and export diversification, industrial investment and economic development. Similarly, experts from preference-giving countries were invited explain how from their point of view the various substantive and operational features and requirements of their trade preference schemes had contributed to promoting the exports and economic development of beneficiary countries. Moreover, the experience of the importing private sector in preference-giving countries with the operation of the GSP and other unilaterally accorded trade preferences could provide further valuable insights.

12. Referring to session 4, he stated that, in particular, LDCs and other structurally weak economies were facing problems in making full use of the benefits which trade preferences offered. Technical cooperation might help to increase their awareness of existing benefits and to strengthen human resources and institutional capacities to comply with complex GSP procedures. Moreover, government authorities and exporters from LDCs could engage in an exchange of information with their counterparts in more advanced developing countries which had been able to benefit effectively from the GSP. In the case of the latter countries, technical cooperation could be shifted increasingly towards measures of support which enhanced the capacity of these countries to conduct by themselves national workshops, information activities and the training of their exporters at the national level. Moreover, for these countries, one might also consider providing technical cooperation increasingly in respect of other trade laws which regulated market access, in addition to the GSP.

II. ANALYTICAL SUMMARY OF DISCUSSIONS

A. Recent new developments in GSP schemes

13. Experts reported on recent developments in the GSP schemes of the United States, the European Union, Japan, Switzerland and Norway. A major initiative had been the expansion of product coverage for LDC beneficiaries through the addition of nearly 1,800 agricultural and industrial products under the GSP scheme of the United States. Moreover, the African Growth and Opportunity Act, proposed by the United States Administration in the context of its new trade and investment policy for sub-Saharan Africa, envisaged duty-free market access with broad product coverage for eligible sub-Saharan developing countries. The Bill had passed the House of Representatives and was now before the Senate, the crucial issue being whether textile and clothing items should be accorded duty-free and quota-free treatment, where there was resistance by the United States textile and clothing industries. In 1999, Congress would carry out a comprehensive review and evaluation of all United States preferential schemes. The United States GSP scheme, which had recently expired, would probably be extended for another year. However, under a peculiarity of United States law, loss of revenue due to trade preferences, which currently amounted to some $400 million annually, would have to be recovered through other measures.

14. The European Union had introduced a fundamentally revised GSP scheme on 1 January 1995 for industrial products and on 1 July 1996 for agricultural products. The scheme included special incentives for the member countries of the Andean Group and the Central American Common Market to help them combat drug trafficking. In May 1998, the European Union had introduced new special incentive arrangements concerning labour rights and environmental protection within the framework of its GSP scheme. All GSP beneficiary countries which comply with certain labour standards or the standards of the International Tropical Timber Organization (ITTO) would, upon application, benefit from additional preferential GSP margins. GSP rates would be reduced further by amounts ranging from 10 per cent to 35 per cent of the Common Customs Tariff, depending on the product, with a slightly more favourable treatment for industrial items. Special incentives concerning environmental protection were granted only for imports of wood, wood manufactures and furniture made of tropical wood. The current GSP scheme for industrial products would, upon expiry at the end of 1998, be extended for three years without major changes. Moreover, the European Union had extended the favourable treatment of ACP countries under the Lomé Convention to LDCs that were not signatories to this Convention, i.e. essentially LDCs in the Asian region.

15. Under Japan's GSP scheme, a greater number of GSP tariff reductions had been introduced for agricultural products, including all tropical products, and for all fishery products in order to maintain attractive preferential margins following the most-favoured nation (MFN) tariff cuts of the Uruguay Round. Since 1995, 19 new beneficiaries had been added to the list of GSP beneficiary countries. However, strongly competitive products from the Republic of Korea, Singapore, Taiwan Province of China, New Caledonia and Hong Kong, China, had been excluded from GSP coverage as of 1 April 1998, taking account of both the objectives of the GSP and the corresponding changes in the GSP schemes of other countries. Regarding rules of origin, products under about 20 Harmonized System (HS) headings (at the 4-digit level) had been exempted from submission of the certificate of origin from January 1996. These products represented about one-third of the product coverage of the Japanese GSP scheme. Moreover, Japan had discarded its "double jump" requirement for textile and clothing articles.

16. In Norway, a new revised scheme had taken effect on 1 July 1995. It entailed a significant improvement in the product coverage for agricultural products. LDCs enjoyed duty-free and quota-free market access for nearly all agricultural products with few exceptions (flour, grains, feeding stuffs), which were granted a tariff reduction of 30 per cent within indicative tariff ceilings. Moreover, all beneficiaries were granted free market access for most manufactured products. LDCs were accorded GSP treatment for all textile and clothing articles. The possibility of broadening the product coverage for

textiles and clothing for other GSP beneficiaries was being examined. Also, Norway had accelerated the dismantling of textile and clothing restrictions on an MFN basis.

17. The GSP scheme of Switzerland had been completely revised at the beginning of 1997. Substantial improvements had been made with regard to agricultural products. LDCs were granted duty-free and quota-free access for their main agricultural exports (e.g. coffee, tea, cocoa, bananas, oranges, all tropical fruit, fish, shrimps, honey, nuts, spices, tobacco) and for all industrial products, including all types of textiles, clothing and footwear. Other developing countries also enjoyed duty-free and quota-free access for industrial products with the exception of textiles and clothing, for which 50 per cent tariff reductions were granted. The revenue loss due to tariff reductions under trade preferences currently amounted to some 100 million Swiss francs a year. Graduation of the most advanced developing countries was applied. The main criterion was the removal of a country from the list of development aid recipients of the Development Aid Committee of the OECD. Moreover, member countries of the OECD and countries with which Switzerland has signed a free trade agreement could not benefit under the GSP scheme. There had never been any recourse to safeguard measures. The rules of origin had been harmonized with those of the GSP rules of origin of the European Union. Under the new rules of origin, regional economic groupings of developing countries enjoyed cumulation facilities under which production inputs imported from members of the regional grouping were counted as local content.

8. Follow-up to the announcements of new LDC preferences during the High-level Meeting on Integrated Initiatives for Least-Developed Countries' Trade Development: review of proposals and state of implementation

18. Experts reported on new initiatives for LDC preferences taken by a number of developing countries - Turkey, India, Morocco, South Africa, Indonesia, the Republic of Korea and Thailand - pursuant to their announcements made at the High-level Meeting on Integrated Initiatives for Least-Developed Countries' Trade Development, held in Geneva in October 1997.

19. Turkey had introduced duty-free treatment for 556 products from LDCs, effective as of 1 January 1998. The list of products subject to preferential treatment had been promulgated in the Official Gazette dated January 1998, and added to the import regime of Turkey. This represented additional market access benefits for LDCs, as many of their export products already entered the Turkish market at zero duty rates. The preferences applied to all LDCs and would apply until such time as Turkey adopted the GSP scheme of the European Union.

20. India provided unilateral trade preferences to LDCs within the framework of the South Asian Preferential Trading Agreement (SAPTA) of the South Asian Association for Regional Cooperation (SAARC), the interregional framework of the GSTP, and bilateral treaties with Nepal and Bhutan. The preferential treatment for LDCs provided for duty-free access or reduced MFN tariff rates on selected products, combined with additional benefits such as the removal of non-tariff barriers and quantitative restrictions. Under SAPTA, India's exclusive preferences for LDCs ranged from 10 per cent to 100 per cent for a total of 571 products. It was expected that the preference margins would be improved and the product list expanded in the third round of negotiations under SAPTA which were currently under way. Under the Bangkok Agreement and the GSTP, special concessions in favour of LDCs had been granted by India for a few selected products. The limited product list would be expanded during the rounds of negotiation currently taking place for both schemes. India's bilateral treaties with Nepal and Bhutan provided for duty-free treatment in bilateral trade flows and for other trade facilitation measures favouring the trade growth of these two LDCs.

21. Morocco had announced its intention of providing unilateral preferences, in the form of duty-free access or substantial tariff reductions, for its imports from African LDCs, which accounted for 32 of the total of 48 LDCs. Currently, Morocco's trade with African LDCs was insubstantial and irregular but had shown a rising trend. The LDC preferences that Morocco would

institute, possibly before the end of 1998, would be tailored to meet specific objectives. The products benefiting from preferences would be those which (i) could enhance trade with African LDCs within the framework of South-South cooperation and (ii) could facilitate the exploitation of competitive advantages of LDCs in the Moroccan market, including the exploitation of opportunities to provide low-cost production inputs for Moroccan industries. These products included fish, certain tropical agricultural products, certain minerals, and various industrial products such as cotton, timber and raw hides. The preferences would provide for total exemptions from all duties and other charges with equivalent effects, or reductions of up to 50 per cent in such duties or other charges. The appropriate legal framework for legislating these preferences was being considered and three possibilities were envisaged, namely (i) bilateral agreements with each African LDC; (ii) plurilateral agreements with groups of African LDCs; or (iii) a generalized system of preferences for African LDCs only. There would be no conditionalities attached. The scheme would be assessed annually, so as to reflect the actual export interests of LDCs in Africa.

22. South Africa, like Morocco, had decided not to offer universal LDC preferences but to confine preferences in favour of LDCs to the LDC members of SADC (Angola, Malawi, Mozambique, United Republic of Tanzania and Zambia), because for economic, political and historical reasons the subregion was South Africa's top priority. For the same reason, neither GSP nor GSTP preferences were offered. The preferences for LDCs in the region would include a trade component and an investment component to strengthen the supply side, the two being interlinked. These integrated supply-side measures provided a further reason for the limited geographical coverage and the exclusion of worldwide GSP and GSTP preferences. The trade aspect involved the liberalization of market access conditions under the SADC free trade area which was to be created following the entry into force of the SADC Trade Protocol. South Africa had agreed to liberalize faster than other SADC members and would provide special trade preferences for the LDCs. The aim of the free trade area was to increase intraregional trade as well as to enhance the integration of the region into the global economy. The investment component constituted a whole development package involving infrastructure development across countries, investment in commercially viable projects, and the promotion of cross-border trade "development initiatives" undertaken to unlock the underutilized trade and development potential of certain areas. The latter were mainly in the form of the Maputo, Beira, Ncala, Tazara and Benguela development corridors, which were being set up with participating LDCs using public and private partnership arrangements. Interacting together, these initiatives were expected to create a virtuous cycle of attracting investment with technology transfer into productive activities, creating jobs in countries other than South Africa, and stimulating intra- and extraregional trade.

23. The three South-East Asian developing countries - Indonesia, the Republic of Korea and Thailand - had extensively considered measures regarding preferential market access conditions and increased technical assistance in favour of LDCs. They had, however, all suspended or postponed the delivery of their policy package owing to the exceptional macroeconomic shock and hardship resulting from the recent financial crises. Indonesia had planned to provide duty-free access to leading products exported by LDCs, using 1995 data. Furthermore, it had actively participated in the second round of GSTP negotiations and would be willing to grant concessions to its developing country trading partners, particularly LDCs, with regard to 35 tariff items (at the 9-digit level). Moreover, it had a strong commitment to technical cooperation among developing countries and had provided substantial technical assistance to developing countries, especially LDCs, although the level of such assistance had been reduced because of the recent financial difficulties. The Republic of Korea provided tariff concessions to LDCs under the GSTP (10 per cent reductions of MFN rates for 26 items) and the Bangkok Agreement (20 to 50 per cent reductions of MFN rates for 229 items), and planned to grant preferences under a proposed GSP scheme. The GSP concept had been legislated into the Customs Law with effect from 31 December 1996, but modalities such as product coverage, preferential rates and beneficiary countries had yet to be spelt out.

24. Thailand had designed a two-pronged cooperation package for LDCs comprising (i) duty-free treatment, or preferences involving a 20 per cent reduction of the rates applied, for 74 product groups (at the 6-digit level), to be reviewed annually; and (ii) technical assistance programmes for LDCs, especially those in the region, such as the Lao People's Democratic Republic and Bhutan. The implementation of the cooperation package had been hampered by the financial crises, but work was in progress with the aim of issuing a ministerial announcement on concessions in favour of LDCs. The Thai Tariff Committee, which was preparing the announcement, still needed supporting information from LDCs concerning the concessions they desired and the potential benefits which such concessions would generate for them.

C. Trade and development implications of recent trends in GSP schemes and new initiatives for LDCs

1. Past impact and future orientations

25. Many experts considered that the GSP had had a positive impact on the exports, industrialization and growth of beneficiary countries. However, they recognized that the results had fallen short of expectations and varied considerably among beneficiaries. Several experts recalled that GSP benefits had been concentrated, over the past two decades of operational experience, in a relatively small number of preference-receiving countries. In the case of many beneficiaries, particularly LDCs, the utilization of GSP benefits had been very slight. Some experts held the view that the GSP had failed to promote industrial development in LDCs.

26. A number of experts observed that the fundamental issue in the area of the GSP, but also with regard to other trade preferences, was to find ways and means of ensuring that those developing countries which were most in need benefited to a greater extent from the GSP and other trade preferences. One expert suggested that a possible approach could be the granting of special preferences for selected beneficiaries. Other experts argued against selectivity. The issue of a possible extension of the GSP to international trade in services was also raised. It was noted that no detailed analysis of its feasibility and potential modalities had as yet been undertaken. Furthermore, some experts observed that the qualitative changes in the post-Uruguay Round trading environment, reflected in increasing liberalization, entailed the danger of erosion of GSP benefits. One expert emphasized in this context that the days of a GSP "with bigger effects" were gone. Other experts suggested that preference-giving countries should take account of the impact of erosion on the GSP in future multilateral trade negotiations. Further liberalization on an MFN basis should be accompanied by reductions in GSP rates where possible.

27. One expert pointed out that developing countries might increasingly resort to negotiating market openings with developed countries on a reciprocal basis. Such negotiations would offer developing countries greater chances of achieving market access in areas of export interest, rather than their relying on GSP preferences, which could not be the subject of bargaining. Some experts remarked that appropriate policy measures by the international community should be examined with a view to enabling LDCs to benefit more from the new emerging trading system on the basis of reciprocity. Once MFN rates had by and large been reduced to zero, new types of assistance would need to be found to help LDCs integrate themselves into international trade and production. Such measures would have to aim at building and diversifying supply capabilities, improving access to capital markets, strengthening the financial sector and promoting the role of the private sector in the economies of LDCs.

2. Constraints on GSP preferences

28. A number of experts expressed the view that the effectiveness of the GSP had been limited by various constraints, in particular limited product coverage, insufficient preferential margins, ceiling and quota limitations, and stringent rules of origin. Furthermore, some experts observed that non-tariff barriers had limited effective access to trade preferences, including technical barriers such as sanitary and phytosanitary measures. It was therefore time for greater attention to be given to the removal of non-tariff

barriers. It was suggested that an empirical study be undertaken of the negative impact of non-tariff barriers on the trade of LDCs and of how such barriers could be successfully removed. One expert remarked that GSP imports should not be constrained by tariff quotas in the agricultural sector. Moreover, a few experts stated that most GSP schemes had a general safeguard mechanism under which preference-giving countries reserved the right to exclude or limit GSP imports.

29. Many experts observed that the inadequate stability and predictability of many GSP schemes reduced their potential value. One expert noted in this context that the application of ceilings on GSP benefits also affected adversely the predictability of benefits. Some experts pointed out that the granting of preferences was not always an altruistic exercise, but reflected to some extent the economic interests of the preference-giving countries. Others held the view that the GSP was a genuine development tool with no self-interest of preference-giving countries attached to it.

30. One expert observed that unstable and unpredictable unilateral trade preferences undermined the WTO rule-based system. He suggested that a multilateral legal framework for the GSP could serve to enhance stability and predictability. GSP benefits might be bound in the WTO. Another expert remarked that developing countries should use the WTO platform more vigorously to make preferences more stable, predictable and transparent. By contrast, other experts pointed out that it would not possible to bind the GSP in the WTO. The GSP was a development instrument and had as such a dynamic dimension requiring adaptations to changes in economic conditions. The GSP would ultimately disappear once development objectives had been achieved.

31. Many experts considered that the complexity of GSP schemes considerably constrained their developmental impact. It was felt that the verification of tariff classifications and product coverage, the calculation of preferential margins, and the application of rules of origin were so difficult and cumbersome for exporters that there was every likelihood of misunderstandings which could result in the loss of GSP benefits.

32. Some experts emphasized the important role of importers, both wholesalers and retailers, in preference-giving countries, since it was they who ultimately decided on the attractiveness of import transactions that benefited from trade preferences. A further obstacle to the successful utilization of the GSP was, in fact, that importers in preference-giving countries themselves often had inadequate information on how the GSP schemes worked. They might therefore lack sufficient incentive to import more from developing countries. On the other hand, one expert emphasized that the attraction of preferences for exporters should not be overestimated. Preferences could be compared to national subsidies. Where they were granted, they were willingly accepted, but were not ultimately decisive for investment decisions.

33. One expert invited beneficiary countries to provide more feedback on their experiences with GSP schemes to preference-giving countries with a view to improving the schemes. With reference to the GSP scheme of the United States, it was observed that there had been no response from LDCs to the inclusion of some 1,800 new products under GSP coverage in their favour, no requests from beneficiary countries in the last annual GSP review for expansion of product coverage and no expression of concern over the recent suspension of the United States GSP scheme. Another expert observed that an efficient flow of information on changes in GSP schemes within preference-giving countries was also important. Authorities involved in the administration of GSP schemes needed to be promptly informed of any changes.

34. A number of experts also observed that the performance of the Lomé Convention in expanding exports, in particular from the LDCs, had not been satisfactory, although the Convention had been seen as "the best offer for poor countries". The important tasks ahead were to negotiate a successor agreement which responded to the development needs of signatory countries.

3. Product coverage

35. As regards the product coverage of GSP schemes, many experts expressed the view that a mismatch existed between product coverage offered by GSP schemes and the export supply capabilities of beneficiary countries. Such a mismatch was particularly pronounced in the case of LDC beneficiaries. The experts suggested that schemes should cover to a greater extent products of export interest to developing countries, especially sectors of importance to LDCs. Some experts also observed that it involved little sacrifice on the part of preference-giving countries if they accorded duty-free treatment to products that were not produced by their own domestic industries. A number of experts noted that a sound measure of product coverage was the number of tariff lines covered, rather than the proportion of actual imports which benefited from the GSP. Coverage ratios of actual imports, even if they were as high as 90 per cent, provided little indication of the beneficiaries' export potential that could benefit from the GSP.

4. Incentive value of preference margins

36. Some experts emphasized the importance of preference margins that were sufficiently large to give beneficiaries a competitive edge in international trade. High transaction costs did not make it worth while for beneficiaries to use the GSP in cases where preference margins were small. Attractive preference margins could, in particular, be offered in the case of products subject to peak tariffs which were in many cases exactly the sectors where developing countries, and especially LDCs, had supply capabilities. One expert referred to the GSP scheme of the European Union, which offered for highly sensitive products (textiles and clothing) and sensitive products (important other consumer goods) GSP rates that were not very attractive, while beneficiary countries had large and competitive supply capabilities for these products. By contrast, another expert argued that small preference margins did not a priori constitute a disincentive, and referred as well to the case of the GSP scheme of the European Union to support his view. Utilization of benefits under this scheme in the textile and clothing sectors had been remarkable despite the relatively small preferential margin of 15 per cent.

37. Other experts observed that even in the absence of GSP preferences relatively high tariffs did not necessarily discourage imports. One expert referred to the case of China, which did not suffer any losses regarding its clothing exports to the European Union after GSP benefits for this sector had been withdrawn from it on 1 January 1996. In fact, China had increased its clothing exports to the market of the European Union. Other experts referred in this context to the case of footwear imports into the United States. Although such imports were by and large not covered under the GSP scheme of that country, about 90 per cent of footwear sales in the United States market were sourced from imports. The real problem of developing countries, and particularly LDCs, was to compete in markets that were very competitive. Other experts argued that the correct approach to an evaluation of the development impact of GSP preferences would be to assess the hypothetical import performance that would result if GSP was granted. It could well be that the granting of GSP for products subject to high tariff barriers would lead to substantial import increases.

5. Withdrawal of GSP benefits

38. Some experts regretted that there was in their view an absence of generally accepted objective criteria for the determination of GSP beneficiary status. Such status was granted at the discretion of preference-giving countries. Many beneficiary countries had lost their beneficiary status for reasons such as increases in per capita income or "high levels of economic development and competitiveness". Moreover, various other criteria such as violation of "recognized workers' rights" or "lack of effective protection of intellectual property rights" had been used to exclude beneficiary countries from GSP benefits. Some experts emphasized that a clear distinction had to be made between safeguard and graduation measures. Safeguard measures were intended to protect the domestic markets of preference-giving countries. By

contrast, graduation measures were based on an assessment by preference-giving countries that beneficiaries were no longer in need of preferential treatment, either generally or with regard to specific products or sectors. A number of experts supported graduation policies, as such policies were in line with the development objectives of the GSP.

6. Rules of origin

39. Many experts considered that GSP rules of origin remained complex and widely disparate despite certain improvements and simplification in the case of some schemes. The complexity and lack of transparency created formidable difficulties for beneficiaries in taking full advantage of the benefits under the various GSP schemes. The difficulties were particularly serious for LDCs.

40. Some experts pointed to the potential trade-distorting impact of stringent rules of origin. Thus, "double jump" or "triple jump" provisions in the textile and clothing sectors could force beneficiary countries into the production of intermediate goods which could be imported at lower cost from other countries. One expert pointed out that cumulation facilities under rules of origin could help significantly to solve some of the production constraints of developing countries, particularly LDCs. Such facilities would also encourage trade and investment flows within regional markets.

41. With reference to the case of Bangladesh, one expert observed that the downward trend in the number of GSP certificates of origin issued for ready-made garment exports could be attributed to the complexity of the rules of origin in the textile and clothing sectors under the GSP scheme of the European Union. Exporters in Bangladesh had failed to understand and properly apply complex "double jump" and "triple jump" provisions. As a result, 15,308 certificates of origin issued in 1994-1996 had not been in conformity with the rules of origin of the GSP scheme of the European Union and had had to be withdrawn, causing heavy financial losses for importers. The European Union had subsequently granted Bangladesh a derogation from these rules of origin until the end of 1998. However, the expert noted that exports of the 35 items that were covered by the derogation had been made subject to quota limitations, thus defeating to a large extent the purpose of the derogation. Consequently, only 9 of the 35 products had been exported under the derogation. To be able to meet the rules of origin criteria, Bangladesh was now trying to encourage the development of backward linkages in the textile sector.

42. Many experts argued in favour of a further liberalization of rules of origin, particularly for the benefit of LDCs. These experts considered it important, for the purpose of increasing the developmental impact of the GSP, that rules of origin be better adapted to the production capabilities of beneficiary countries and provided in particular a more liberal cumulation of imported production inputs. Moreover, the administrative procedures and documentary requirements associated with rules of origin should be simplified significantly. One expert recalled that rules of origin were also discussed in the WTO and in the context of regional agreements. These discussions might take GSP-related issues of rules of origin into account. Some experts raised the issue of a harmonization of preferential rules of origin. They felt that such harmonization could help to encourage investment in beneficiary countries in sectors that benefited from the GSP.

43. Other experts expressed the view that rules of origin should not be weakened further. They emphasized that there was a trade-off between further liberalization and relaxation of rules of origin on the one hand and potential improvements in product coverage and a judicious use of safeguard measures on the other hand. The potential to provide wider product coverage and avoid safeguard action depended on rules of origin which ensured that benefiting products effectively originated in beneficiary countries. Moreover, beneficiary countries were invited to explain in greater detail the complications that were in their view associated with the application of rules of origin.

7. Incentives concerning labour rights and environmental protection

44. The scheme of the European Union, which offered additional special incentives concerning labour rights and environmental protection, attracted a good deal of attention. Some experts considered that the additional preferences were substantial and could considerably strengthen price competitiveness. Moreover, the new incentives did not attempt to impose any standards of behaviour on beneficiary countries since participation in the special regimes was entirely voluntary. In addition, it was noted that the special incentives also applied to products which had been graduated from the GSP scheme under the country-product graduation mechanism (with the exception of cases falling under the "lion's share" clause). Moreover, it was observed that the substance of relevant ILO Conventions and ITTO standards had to be incorporated into domestic legislation so that products could benefit from the special incentives, but no ratification of the Conventions was required. In this context it was also noted that many developing countries had in any case ratified the Conventions in question. Special incentives might encourage them to implement the Conventions.

45. The question was also raised why other GSP schemes such as the United States scheme did not offer similar additional incentives for the observance of labour and environmental standards. As regards that particular scheme, it was argued that its principle of zero GSP rates would not allow the application of additional incentives. Moreover, the scheme did not set out any environmental requirements. As for international core labour standards, GSP benefits had rarely been removed under the United States scheme on account of a violation of such standards, and in any case only after long and thorough investigations. However, some experts expressed the view that similar concepts could be introduced into the United States scheme with regard to certain import-sensitive products which were not covered by it.

46. On the other hand, some experts raised the general concern that any linkage between GSP benefits and non-trade-related aspects such as labour and environmental standards was not compatible with the non-reciprocal nature of the GSP. Moreover, the GSP was a development policy instrument intended to provide "aid by trade". It should therefore be used only for purposes of development policy, not for other purposes such as the observance of social or environmental standards. In this context, it was emphasized by some experts that developing countries could not be expected to comply with the same standards as the economically much more advanced industrialized countries. The most important contribution which the GSP could make towards improving social and environmental standards was the expansion of exports of beneficiary countries, thereby increasing their financial resources and wealth. It was recalled that the Singapore Ministerial Declaration had rejected the use of labour standards for protectionist purposes. In addition, some experts stressed that neither UNCTAD nor the WTO had the comparative advantage or mandate to deal with labour standards and social clauses, the appropriate forum being the ILO.

47. By contrast, other experts argued that trade and social and environmental policies were all important aspects of the development dimension and should not be separated artificially. Hence, the GSP as an instrument to advance trade and development would be an appropriate tool to further social and environmental standards as well. Moreover, it was stressed that the special incentive scheme of the European Union was clearly not designed as a protectionist measure.

48. Some experts asked whether special incentive regimes were necessary at all. It would be more important to implement improvements under the general GSP regimes such as extensions in product coverage, improvements in preference margins and the removal of ceiling limitations. A number of experts expressed concern that the new special incentive regime would lead to an application of the GSP scheme that discriminated between beneficiary developing countries. The question was raised whether it would be possible for some beneficiaries to be granted additional incentives for certain products, while other beneficiaries were for the same products denied such treatment. Some experts expressed the view that the granting of special incentive regimes to more advanced developing countries could "erode" preferences for LDCs.

49. Moreover, some experts considered that the procedures for granting these arrangements as well as the monitoring and administrative cooperation methods were too bureaucratic, thus increasing the transaction cost of their utilization. Others considered this question purely speculative for the time being, since no operational experience had as yet been gained with the new incentive regime of the European Union. Thus, it would be difficult to say how long the processing of applications for additional incentives would actually take. Moreover, the crucial question would be whether the additional preferential margins offered would provide a sufficient incentive to make use of the new regime. Some experts held the view that this would be the case. It was also noted that while the new regime made, in principle, no distinction between different product sectors, sectoral differentiation would be possible as some countries might still have problems regarding labour or environmental standards in some sectors, but not in others, and the problem sectors were likely to differ among countries. On the other hand, it was observed that the design of special incentive regimes should from the outset aim at administrative simplicity, rather than letting operational experience decide whether regimes were unduly bureaucratic.

c. Special measures in favour of LDCs

50. Some experts associated themselves with the Plan of Action for LDCs adopted by the Singapore WTO Ministerial Conference, which would include provision for taking positive measures, for example duty-free access, on an autonomous basis, with a view to improving the overall capacity of LDCs to respond to the opportunities offered by the trading system. One expert suggested that preference-giving countries should be encouraged to grant LDCs duty-free and quota-free access for all products by the year 2000. The WTO and UNCTAD could play a lead role in such an initiative. Another expert proposed a three-track approach: developed preference-giving countries should offer duty and quota free access to LDCs; the more advanced developing countries should grant duty-free access, though not necessarily completely quota-free; and the beneficiary LDCs should make efforts to abolish child labour. The expert added that if the African Growth and Opportunity Act was adopted by the United States Congress, total duty-free and quota-free treatment would be in place in the United States for most LDCs since they were predominantly located in Africa.

51. One expert suggested with specific reference to the GSP scheme of the European Union that future changes in the scheme should seek to focus the preferences on LDCs and other weak developing economies (to be determined according to criteria which still needed to be elaborated). A new scheme could have the following major features: (i) duty-free access for all industrial products and, as far as possible, for all agricultural products regardless of their import sensitivity; (ii) the application of non-preferential rules of origin to GSP exports (this would be preferable to the application of preferential rules of origin, even if such rules were reinforced by cumulation facilities, since the observance of rules of cumulation was extremely complicated); and (iii) withdrawal of GSP benefits only in cases of a serious transgression on the part of the beneficiary country in the area of administrative cooperation with the preference-giving country. Moreover, the rules of origin of the Lomé Convention would need to be adjusted to the origin rules of the new preference scheme in order to prevent the large number of LDCs which were signatories to the Lomé Convention from being put at a disadvantage. The expert also suggested that such a scheme could provide some guidance for policy makers in developing countries who were in the process of designing special preferences in favour of LDCs.

52. One expert referred to the proposal in the informal background note prepared by the UNCTAD secretariat (UNCTAD/SG/AC.1/Misc.1) that by analogy with the extension of Lomé benefits to non-ACP LDCs, consideration might be given to the extension of "NAFTA parity" to all LDCs on a non-reciprocal basis. The expert expressed the view that such "NAFTA parity" would not be a wise approach as it would constitute a disincentive for potential NAFTA members to negotiate their accession on a reciprocal basis as full members.

53. As regards the new initiatives by developing countries to offer trade preferences in favour of LDCs, some experts felt that these did not meet the latter's expectations. To the extent that information was available, it

appeared that product coverage was limited, preferential tariff rates were in most cases not set at zero, and most preferences were not granted unilaterally, but negotiated. In fact, preferences were being proposed mainly within the framework of existing subregional and regional trade liberalization programmes and the GSTP. Hence, the beneficiary countries were in a number of cases limited to LDCs in the same geographical region or subregion. Only two developing donor countries seemed to have developed a generalized system of preferences, and only one of them was operational. Many of the proposed preferential schemes required further clarification in terms of, for example, product coverage, preferential margins, rules of origin or the stability and predictability of the schemes.

54. Some experts noted that there were also indications of mismatches between product coverage offered by the new initiatives and the export supply capabilities of beneficiary LDCs. Hence, there was a risk that product coverage might fail to meet the export interests of LDCs. Some experts suggested that the new schemes could offer large preference margins because the tariffs of preference-giving developing countries were, by and large, higher than tariffs of developed donor countries. Moreover, as liberalization in the preference-giving developing countries could be expected to be a longer-term process, the new schemes could serve their purpose of promoting the exports and industrialization of LDCs for some time to come.

55. One expert considered it desirable that an analysis be undertaken of the potential impact on the trade and development of LDCs of the new preference schemes proposed in their favour by developing countries. This analysis could also examine country-specific problems faced by particular LDCs. For instance, land-locked countries were often confronted with greater difficulties in benefiting from trade preferences.

56. One expert from a developing country which had announced the introduction of a GSP for LDCs raised the question of the proper legal accommodation under WTO rules for autonomous preferential market access for LDCs. The Enabling Clause did not, in his view, represent a clear legal basis as it covered differential and more favourable treatment provided by a developed (and not a developing) country. Moreover, seeking a waiver for preferences granted by developing countries was not an appropriate way to solve the problem, since the GSP was after all a "measure of goodwill" and not something irregular for which exceptional treatment had to be solicited. The question was currently under consideration in the WTO. Another expert considered that the developing country in question would fall under the Enabling Clause as it was a member of the OECD.

57. Some experts observed that the rigidity of many WTO Agreements and delays in the implementation of various special and differential measures in favour of developing countries and LDCs had compounded the difficulty facing these countries in making full use of trade preferences, including the GSP. This called for an extension of transition periods granted to LDCs in WTO Agreements.

58. Some experts emphasized the importance of special treatment for LDCs within the framework of the GSTP. Important concessions which LDCs should seek under the GSTP were duty-free market access granted on a non-reciprocal basis, the removal of para-tariff and non-tariff barriers, and special consideration in the application of safeguard measures. Moreover, some experts stressed the importance of the negotiation of long-term supply contracts with LDCs which participated in the GSTP in order to help them achieve reasonable levels of sustainable exports of their products.

59. However, a number of experts noted that only about eight LDCs had so far joined the GSTP. LDCs were therefore encouraged to participate in the GSTP arrangement. One expert suggested that the reasons for the disappointing participation of LDCs in the GSTP might be examined in greater detail. Some experts from LDCs that had joined the GSTP observed that their countries had not been able to derive satisfactory benefits from it. Efforts should be made in LDCs that were members of the GSTP to familiarize the private sector to a greater extent with the benefits offered under this preferential arrangement. Moreover, some experts emphasized the importance of South-South investment as a means of enhancing South-South trade within the framework of the GSTP.

60. Some experts drew attention to the fact that various regional and subregional arrangements in Africa included provisions for special market access in favour of LDCs. However, intraregional trade was still insubstantial, basically owing to a lack of complementarities as well as to the existence of traditional, long established commercial relations with industrialized countries.

9. The supply capability problem of LDCs

61. The experts recognized that the provision of the GSP alone could not be the catalyst for export promotion and economic development. Market access concessions needed to be accompanied by efforts to strengthen supply capabilities. Many experts stressed that the utilization of the GSP and other trade preferences by LDCs was hampered by serious constraints on export supply capability in these countries. Many of the products covered under GSP schemes were simply not yet produced in LDCs. Lack of capital, technology and human resources as well as inadequate infrastructure were among the major constraints on the supply side. One expert also stressed the special transportation problems faced by land-locked countries which sought to expand exports.

62. Some experts observed that beneficiary countries which had been able to use the GSP successfully had been those with access to capital and technology, and had therefore been able to diversify their production bases. The promotion of investment, technology transfer and human resource development was important for improving supply capabilities in LDCs. All this required efforts on the part of the LDCs and technical cooperation with other countries and international organizations, including assistance in areas of technology transfer. Some experts emphasized the crucial role of efforts at national level in LDCs to put in place a policy environment that was favourable for investment, including foreign direct investment. Macroeconomic stabilization and open trade policies were further important policy components. Some experts also suggested that preference-giving countries might provide greater investment incentives and investment guarantees in support of foreign direct investment in LDCs.

63. A number of experts stressed the importance of the Integrated Framework for Trade-Related Technical Assistance of six major international organizations (IMF, WTO, World Bank, UNCTAD, UNDP and ITC). One expert suggested that UNCTAD could identify production areas where LDCs supply capabilities could be strengthened and propose measures to build capacities in these sectors with a view to enhancing the capability of LDCs to benefit from the GSP.

D. Ways and means of enhancing the utilization of preferences, in particular by LDCs, through technical cooperation

64. In his introductory remarks, the representative of the UNCTAD secretariat stated that technical cooperation could play a pivotal role in increasing the utilization of the GSP by beneficiary countries, especially LDCs. Through technical cooperation activities, important obstacles which hampered the full utilization of GSP schemes could be effectively addressed. Users of the GSP required familiarity with the complex HS nomenclature, detailed knowledge of the various GSP schemes and rules of origin, and managerial and institutional capacities to comply with GSP procedures and documentary requirements. Exporters in LDCs had serious problems in applying the GSP. Moreover, it was found that problems were often also encountered by authorities and institutions in LDCs such as customs authorities and Chambers of Commerce, which were supposed to assist exporters in making use of the GSP. Technical cooperation had, inter alia, assisted beneficiary countries in establishing GSP focal points which helped exporters to make the best possible use of the GSP.

65. Furthermore, he stated that following UNCTAD IX, UNCTAD's technical cooperation programme had taken stock of its experience, and efforts had been made to reorient and innovate technical cooperation within the constraints of available resources. Activities had been tailored more closely to the needs of beneficiary countries. Regarding LDCs, advisory services and seminars were aimed in particular at providing up-to-date GSP information, the training

of human resources in the private and public sec[illegible] institutional capacity, especially the strengthen[illegible] Middle-income beneficiary countries required addi[illegible] training with regard to technical barriers to [illegible] environmental requirements. In the more advanced bene[illegible] countries, the technical cooperation programme presented specific technical workshops on selected GSP issues (e.g. rules of origin), other trade laws (e.g. anti-dumping laws) and regional trade arrangements.

66. He also observed that a number of new handbooks on GSP and other trade laws had been published in all official languages. Moreover, information on GSP schemes in the Trade Analysis and Information System (TRAINS) database and GSP trade-related information in the GSP trade data base had been updated. At the same time, the technical cooperation programme had started to implement a number of innovative approaches, such as (i) making the handbooks available on the Internet; (ii) preparing a tutorial in electronic format covering all GSP schemes as well as rules of origin, and making it available in different electronic formats (i.e. CD-ROMs, diskettes and the Internet); (iii) developing training modules on GSP and other preferential arrangements so as to establish a permanent training capacity in GSP focal points; and (iv) analysing country-specific GSP trade data for use in technical cooperation activities. Moreover, it was pointed out that the prompt notification of changes in GSP schemes and the provision of GSP-related trade data by preference giving countries to the UNCTAD secretariat were crucially important for the success of technical cooperation activities.

67. In response to requests from experts, the following clarifications were provided on specific aspects. First, information on GSP schemes of countries in Central and Eastern Europe and the utilization of these schemes were at present very limited. However, the UNCTAD secretariat had encouraged these countries to promptly notify changes in their schemes and make GSP-related trade data available to the secretariat. Secondly, the tutorial on the GSP would be ready for distribution by the end of March 1999. Thirdly, a first analysis of GSP related trade statistics would be presented to the third session of the Commission on Trade in Goods and Services, and Commodities, which would meet in Geneva from 28 September to 2 October 1998. Finally, UNCTAD's technical cooperation activities had gained new momentum as a result of financial contributions from the Governments of China, Italy and Japan, and from the European Commission. The focus of activities had been on field activities, particularly in the form of seminars at the national level. Some experts commented on the possibilities of obtaining information on GSP schemes from the Internet. It was noted that the GSP scheme of the United States was available on the Internet, while the European Commission and the Republic of Korea would publish their respective GSP schemes on the Internet in the near future.

68. Many experts recognized that insufficient familiarity with the various GSP schemes on the part of both exporters and authorities in beneficiary developing countries constituted an important obstacle to a greater utilization of GSP benefits. The GSP schemes and associated rules of origin and documentary requirements were complex and could differ significantly from one scheme to another. Problems with identifying GSP benefits and utilizing the GSP effectively were particularly evident in LDCs which had only limited managerial and institutional capacities. Some experts emphasized that technical cooperation should give particular attention to helping LDCs make greater use of the GSP. In addition to the training of human resources, it was important that more extensive documentation, including information in the French language, be made available to GSP users. One expert suggested that a round table be convened between preference-giving countries and LDC beneficiaries to provide an opportunity to study the principal problems of LDCs in utilizing GSP schemes and examine appropriate solutions.

69. Some experts expressed the hope that UNCTAD would be in a position to strengthen significantly its technical cooperation activities in the area of the GSP and other trade laws. A number of experts suggested that UNCTAD technical cooperation also needed to be expanded in view of the many new preferential schemes which developing countries would be implementing in favour of LDCs. Such technical cooperation could help developing donor

70. A number of experts stressed the importance of technical cooperation in support of expanding and diversifying the export supply capabilities in LDCs. Enhanced supply capabilities would lead to greater GSP utilization. Some experts noted that technical cooperation was required for countries signatories to the Lomé Convention as regards the negotiation of a post-Lomé agreement that responded to the development needs of its signatories.

E. Possible action to improve preferences, in particular for LDCs

71. Notwithstanding the often divergent views, there appeared to be some broad based general agreement on the following points:

(i) The improvements and extensions of GSP schemes and other unilateral trade preferences that had been implemented or proposed, in particular in favour of LDCs, were seen as a sign of the continuing relevance of these preference schemes and the importance attached to them by preference-giving countries. However, past results had fallen short of expectations.

(ii) The trade and development problems of the LDCs required special attention. In particular, ways and means needed to be found to ensure that those developing countries most in need benefited to a greater extent from the GSP and other trade preferences.

(iii) Market access under special trade preferences should be further improved for export products from LDCs, in particular through expansions of product coverage, adaptations of rules of origin to the production capabilities of LDCs and the further simplification of these rules.

(iv) Lack of stability, predictability and transparency in a number of GSP schemes had had an adverse impact on the utilization of the GSP, undermining its effective exploitation in particular by LDCs. Such built-in deficiencies of GSP schemes need to be removed.

(v) UNCTAD had a comparative advantage in analysing the importance of GSP schemes and other trade laws, including on the basis of quantified and statistically supported evidence. It should strengthen such analysis, especially in terms of identifying the real benefits obtained from trade preferences.

(vi) UNCTAD should continue to provide, and explore ways and means of strengthening, technical cooperation to preference-receiving countries with a view to increasing the utilization of trade preferences. In addition, there was a need for UNCTAD and WTO to enhance their mutual cooperation in the area of GSP and other unilateral trade preferences.

(vii) More LDCs should endeavour to join the GSTP. Participation by LDCs in the GSTP under special conditions, including non-reciprocal trade preferences, could provide a major boost to South-South trade.

(viii) In addition to ensuring more liberal market access conditions, which was only one aspect of integrating LDCs into the international trading system, the deep-seated weakness of supply capabilities in LDCs needed addressing by the international community. A deficiency on the supply side was another explanatory variable for the insubstantial utilization of GSP benefits by LDCs. The importance of technical cooperation to enhance the export supply capabilities of LDCs was underscored.

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es are facing a new trading
a proliferation of regional
trade arrangements are major features, as well as the introduction of a greater degree of reciprocity in North-South trade relations. An erosion of preference margins of the GSP and other unilateral preferential schemes as a result of trade liberalization at the multilateral and regional levels is seen by many as undermining the effectiveness of these schemes. In addition, benefits are increasingly withdrawn from more advanced developing countries whenever preference-giving developed countries consider them to be no longer in need of preferential treatment. Tentative suggestions have even been made to the effect that the GSP be confined to LDCs which are regarded as being most in need of trade preferences, and withdrawn from all other beneficiary developing countries. Moreover, the proposals by the European Commission for post-Lomé arrangements with ACP countries envisage discarding the "traditional" approach to trade centred on a system of unilateral preferences in favour of "a more balanced approach", although due account would be taken of the special trade and development needs of LDCs and other structurally weak economies.

73. Thus, it seems that the GSP and other unilateral trade preferences are facing a considerable challenge in the multilateral trading system. However, the processes of liberalization and growing reciprocity in international trade should not be taken as an argument in favour of repealing GSP programmes and other unilateral preferential arrangements prematurely. Such an approach would ignore economic and political realities. Despite the remarkable progress in liberalization, peak tariffs and tariff escalation continue to be levied on an important number of agricultural and industrial products of export interest to developing countries. There will still be a long process of further multilateral negotiations, regional integration and national policy reforms until progressive liberalization and growing reciprocity in North-South trade relations leave no further scope for commercially meaningful unilateral trade preferences, in particular in favour of LDCs. Moreover, a sweeping withdrawal of GSP benefits from all beneficiary countries with the exception of LDCs would entail the exclusion of many beneficiaries whose stage of economic development still justifies special and differential treatment in international trade.

An alternative approach to graduation

74. The GSP, like other unilateral trade preferences, represents a move, even if limited and unbalanced, towards freer trade, whereas the application of graduation practices can be considered to be a measure that involves a roll-back of liberalization, i.e. the imposition of new trade restrictions, a move that is considered make little sense. Rather than applying graduation mechanisms, a more appropriate approach in a liberalizing multilateral trading system would be to freeze GSP rates until they are matched by reduced MFN rates, at which point the GSP would no longer apply. Thus, where product graduations are envisaged, GSP rates would be frozen for the products in question, while all GSP rates would be frozen at their current levels in cases where the intention is to graduate a country as a whole. Preference margins would decrease in keeping with the progress of liberalization on an MFN basis. Beneficiary countries that are being phased out of the GSP would no longer benefit from extensions of GSP product coverage occurring during the transition period. In other words, all beneficiary countries could count on securing the status quo in terms of access conditions, although they might not necessarily benefit from all further improvements in the scheme.

See "Guidelines for the negotiation of new cooperation agreements with the African, Caribbean and Pacific (ACP) countries", communication from the Commission to the Council and the European Parliament, December 1997.

Strengthening trade preferences for LDCs

75. It is a welcome development that many preference-giving developed countries have strengthened the GSP and other trade preferences in favour of LDCs. Also, it is encouraging to see that the developed donor countries have been joined by a number of developing countries which announced that they too would introduce special concessions for LDCs. All these efforts to expand trade preferences for the benefit of LDCs respond to a real and urgent need, given the danger that most LDCs might be left outside the mainstream of international trade and the expanding networks of global and regional production chains. Permanent exclusion would inevitably lead to economic collapse.

76. The trade preferences announced by a number of developing countries in favour of LDCs have the merit of serving to promote the participation of LDCs in South-South trade. However, being themselves under multiple kinds of constraints, especially of an economic nature such as the Asian financial crises, and given the fact that many of them had to design preferential schemes for the first time, most of the developing donor countries encountered difficulties in elaborating and implementing preferential treatment for LDCs as expeditiously as they might have desired. Moreover, the announcements of concessions mainly involve proposals to strengthen market access conditions for LDCs under subregional or regional regimes as well as the interregional GSTP regime. Only two developing countries have chosen to grant GSP-type preferences. One scheme is operational (that of Turkey) and the other one (that of the Republic of Korea) has been legislated into the national Customs Law, but its modalities still have to be announced.

77. To ensure the strongest possible developmental impact, trade preferences granted by developed or developing countries in favour of LDCs may aim to (i) offer a product coverage which corresponds to the actual and potential export supply capabilities of LDCs; (ii) grant duty-free entry for the products covered or preference margins that are sufficiently large to be commercially attractive; (iii) apply rules of origin which are not excessively stringent and complex but are in particular adapted to the production capabilities of LDCs, allowing for liberal cumulation of imported production inputs; and (iv) guarantee stability and predictability of the tariff concessions.

78. The new momentum in granting trade preferences in favour of LDCs may be used to achieve greater conformity of the key aspects of the various trade preference schemes for LDCs such as product coverage, preference margins, rules of origin, and stability and predictability of the schemes. Greater conformity would simplify significantly the utilization of the various schemes by exporters in LDCs with limited managerial capacities.

79. As GSP benefits have been concentrated in a relatively small number of preference-receiving countries, ways and means have to be found to ensure that LDCs benefit to a greater extent from the GSP. As suggested by some experts, a round table could be convened between preference-giving countries and LDC beneficiaries to provide an opportunity to study the principal problems of LDCs in utilizing GSP schemes and examine appropriate solutions. Also, technical cooperation activities should give particular attention to helping LDCs make optimal use of the GSP and other trade preferences.

80. A study may be carried out regarding the potential impact on the trade and development of LDCs of new preference schemes implemented or proposed in their favour. It could also examine country-specific problems faced by particular LDCs, for instance land-locked countries, which often have greater difficulties in benefiting from trade preferences. Moreover, the reasons for the disappointing participation of LDCs in the GSTP might be examined in greater detail. Some experts recommended that such studies be undertaken.

81. Market access concessions for LDCs have to be accompanied by efforts to strengthen the supply capabilities of these countries. Lack of capital, technology and human resources as well as inadequate infrastructure are major constraints on the supply side. Support by the international community with

a view to expanding and diversifying export supply capabilities in LDCs is crucially important for better utilization of trade preferences and should be strengthened considerably.

Need for a new concept of special and differential (S&D) treatment

82. The GSP and other unilateral trade preferences constitute a specific case of S&D treatment of developing countries. Accommodating current developments in the area of unilateral trade preferences within the framework of the Enabling Clause, which was negotiated in 1979, is apparently proving to be a difficult task. For example, the issue was raised whether the Enabling Clause could provide the legal basis for trade preferences granted by developing countries or was applicable only to trade preferences accorded by developed countries.

83. Moreover, it may be recalled that a number of recent proposals for special trade preferences in favour of LDCs, including the trade preferences in favour of sub-Saharan Africa envisaged under the proposed African Growth and Opportunity Act of the United States, are selective in their coverage of beneficiary countries. However, the Enabling Clause does not permit trade preferences that select beneficiary countries according to geographical criteria. Furthermore, free trade areas are, under Article XXIV of the GATT, required to cover substantially all trade among participants, which has been defined as 90 per cent of mutual trade, and to be implemented within a 10-year period. In other words, free trade areas must aim at full reciprocity among parties. The legal accommodation of differentiated post-Lomé arrangements with a tailor-made mix of reciprocal and non-reciprocal concessions that respond to particular development needs therefore presents a further problem which may have to be addressed.

84. Increasing recourse to WTO waivers does not offer a solution that will be practicable in the longer run. The changing international trading environment calls for new, more flexible approaches to S&D treatment, more adapted to the realities of a world of increased trade liberalization and the globalization of production. The search for new concepts may include considerations as to how stability and predictability of trade preferences can be improved at the multilateral level. Such concepts should be developed and elaborated upon before the launching of further initiatives to liberalize multilateral trade.

ANNEX

Experts invited by the UNCTAD secretariat

Mr. Michael Davenport, Consultant, United Kingdom

Ms. Elcin Edis, Undersecretariat of Foreign Trade, General Directorate of Agreements, Turkey

Mr. Charles Antoine Jean, Directeur, Commerce Extérieur, Ministère du Commerce et de l'Industrie, Haiti

Mr. El Hassan Jouaouine, Chef de Service, Afrique, Asie et Amérique, Ministère de l'Industrie, du Commerce et de l'Artisanat, Morocco

Mr. George P.E. Lauwo, Ministry of Industry and Trade, United Republic of Tanzania

Mr. Chang-bong Lee, Assistant Director, Customs Cooperation Division, Ministry of Finance and Economy, Republic of Korea

Ms. Marina Mayer, Deputy Director, Southern African Development Community, Department of Trade and Industry, South Africa

Mr. M.N. Nabi, Joint Secretary, Ministry of Commerce, Bangladesh

Mr. Konrad Neundörfer, Delegate General, Foreign Trade Association, Brussels

Mr. François Nizery, Head of Unit, Trade, Generalized Tariff Preferences and Investment, Directorate General 1B, European Commission, Brussels

Mr. Djauhari Oratmangun, Deputy Director, Directorate of Multilateral Economic Cooperation, Department of Foreign Affairs, Indonesia

Mr. T.K. Pandey, Deputy Secretary, Ministry of Commerce, India

Mr. H.J. Rosenbaum, Assistant USTR for Trade and Development, Executive Office of the President, Office of The United States Trade Representative, United States

Ms. Natina Santiyanont, Assistant Director, Tariff Group, Customs Department, Ministry of Finance, Thailand

Mr. Jochen Schultze, Federal Ministry of Economy, Federal Republic of Germany

Mr. Ephrem Tufer, Head, Foreign Trade Relations Division, Ministry of Trade and Industry, Ethiopia

Mr. Shoushi Yabana, Deputy Director, Developing Economies Division, Ministry of Foreign Affairs, Japan